# Cornwall Council response to Consultation into Office for Investment – Department of International Trade

**02 February 2021**

## Executive summary:

1. The stated objective for the Office for Investment is "to drive investment into all parts of the UK". The Office of Investment can do so by:

    a) driving FDI to the regions to unlock the power of the whole of the UK economy and underpin the investment capacity created by the levelling up policy
    b) Working with local government to promote peripheral and rural regions as locations for FDI

2. Cornwall Council are responding to this consultation as a forward-looking region with significant investment potential. We have the potential for investment that will benefit both our local and national economy. Our key FDI investment opportunities are in the renewable energy, aerospace and mining sectors.

3. Cornwall has a strong history in mining, agriculture, fisheries and tourism. Over the past years, Cornwall plc. has invested significantly in modernising these sectors and unlocking Cornwall's potential for powering the UK carbon zero economy. Our Local Industrial Strategy sets out the distinctive opportunities our region holds in the sectors of clean energy resources, geo-resources, data and space, agri-food, and the visitor economy. Within these, we have developed a strong portfolio of large capital investment opportunities which would offer a significant return on investment, including Lithium mining, aerospace, floating offshore wind, and geothermal energy.

4. The office for investment should therefore be aware that Cornwall has:

    a) Opportunities at a scale that will be of interest to FD investors within a stable economy that have the potential to deliver an attractive return on investment.
    b) A proven track record of reliable and supportive local strategic policy framework. This can be evidenced by our Local Industrial Strategy identifying these key sectors as opportunities for growth and from direct financial investment from Cornwall Council in projects such as Geothermal energy, Spaceport and floating offshore wind.
    c) Geological and geographic advantages that provide sectors such as space, mining, geothermal and floating offshore wind with unique advantages that could lead to the UK becoming world leaders in these areas.

5. The office for investment must ensure that Foreign direct investment (FDI) is not only increased, but is also spread throughout the whole of the UK, fulfilling the UK's levelling up agenda and thus helping with the national economic recovery from Covid-19 as well as contributing to longer term economic regeneration of those areas of the UK suffering from low productivity and below average performance level. There also must be a push from the government to increase the attractiveness of rural regions by supporting policies which foster skills development and increasing connectivity and infrastructure.

6. The office for investment, in order to fulfil its aims, will need to make sure that all regions capitalise on their strengths, helping and supporting the economic regeneration of regions that need it most, as well as fulfilling UK ambitions such as carbon neutrality by 2050. Areas such as Cornwall have great potential to fulfil the UK's zero carbon ambitions, which is more possible through focused FDI in the clean energy sector.

7. Sovereign wealth funds have a role to play in UK investment, however the UK must be cautious and not encourage investment from funds owned by governments that would weaken or jeopardise the UK's position on human rights and environmental values.

8. We are keen to see that the government and the office for investment become better at promoting rural regions as attractive places to invest as this will help to demonstrate the DIT is "rural proofing" its policies and delivery in line with DEFRA's Rural Proofing guidelines. By promoting their strengths, alongside the wider UK offer, to inwards investors regions such as Cornwall can showcase our renewable energy potential, our world class expertise in mining and our infrastructure such as spaceport, Cornwall Newquay airport, and our superfast broadband connectivity on an equal footing to more urban regions that have more traditionally been the focus of FDI activity.

## About Cornwall Council:

9. Cornwall Council is a local authority in the South West of England. Cornwall has huge potential for investment in niche industries such as floating offshore wind, geothermal and mining. Cornwall is also an area which would benefit from any levelling up agenda due to below average productivity. However, Cornwall has vast resources, an increasing skill level and a large creative economy, making it attractive for large scale investment.

## How can the Office for Investment most effectively fulfil its remit to "support the landing of high value investment opportunities into the UK", while "ensuring high and rigorous standards of scrutiny and security"?

10. As the Exchequer faces unprecedented challenges, economic recovery will rely heavily on FDI. However, Covid-19 has caused a dramatic fall in FDI as well, with a rebound to pre-pandemic levels not expected before 2022[1]. The Office for Investment should be critically aware of the competitive environment within which it operates through continually updated and rigorously derived analysis of competitor jurisdictions FDI strategy. Global competition from FDI will be intense in international Covid-19 recovery, and as such the UK government should capitalise on every FDI opportunity, sector and in every location in the UK, not just large urban centres where agglomeration benefits may look higher. The office needs to look at the real value for the local area, generating new opportunities and allowing all areas of the UK to reach their full potential.

11. The 2020 Review by the Faraday Institution stated, in relation to battery firms, that key factors that most impact on business decisions to locate in one country rather than another are:

[1] UNTCAD World Investment Report

a) Proximity to customers (i.e. EV manufacturers) - hence, if the UK can build upon its existing vehicle manufacturing base, it can hope to attract the battery manufacturers and therefore sustain significant EV production.
b) investment incentives,
c) timely permitting and licensing arrangements,
d) cheap and clean energy
e) a skilled and productive workforce.

12. To achieve a successful outcome, it will be vital for the Office for Investment to simplify the complexity of UK Government interaction with potential investors i.e. "hide the wiring". In this context, the Office for Investment should

    a) promote the UK as a destination for large scale inbound FDI
    b) assume "account management" responsibility for the largest and most significant FDI capital investment and corporate relocation projects and the investors associated with them
    c) lead and continually promote changes in investment strategy and effect policy levers to make the UK more attractive as a destination for FDI. This would include, but not be limited to fiscal policy, direct financial incentives and skills development operating at a national level.

## How does the Government's Investment Strategy relate to its Industrial Strategy, its regional policy and the "levelling up" agenda?

### Governments industrial strategy

13. Through the office for investment, as long as local expertise and stakeholders are involved, it has the potential to fulfil many of the aims set out in the industrial strategy. With a partnership between the office of investment, local authorities and stakeholders, investment can be focused on sectors which will help empower local areas and create real economic growth. Local expertise can also help identify niche sectors within regional areas, which may not be important on the national stage, leading to more focused investment.

14. The Governments industrial strategy includes a commitment for clean growth and infrastructure, an area in which CIoS could deliver on a large scale, given our geography and natural resources giving us the perfect environment for tidal, geothermal and wind energy. Therefore, there is an opportunity for the office for investment to focus on renewable energy and clean infrastructure, especially in the area of floating offshore wind, in ambitions set out in the governments industrial strategy and in its aim for carbon neutrality by 2050.

### Regional policy and Levelling up agenda

15. Research by Britain's Leading Edge[2] shows that, to date, government has concentrated much of its infrastructure and innovation investment; its catapults and core funding for essential local services in areas away from the periphery. Under the levelling up agenda, the government has now committed to reducing the regional inequalities in the UK. The main goal is to **raise productivity and empower places**

[2] Britain's Leading Edge (2019) Launch document. Available here.

so that everyone across the country can benefit from levelling up. To achieve this aim the Office for Investment needs to recognise that the “trickle down” benefit of FDI has a spatial limit and whilst there are clear agglomeration benefits that accrue to areas surrounding any FDI investment the benefit does not reach many of the areas that are in need of levelling up. Therefore the future location of any FDI needs to be carefully considered to balance levelling up and wider economic development objectives. Empowerment comes with a certain degree of self-sufficiency. As government works to support the development of local economies, it will create new investment capacity in these regions.

16. The stated aim of the Office for Investment is “to connect public and private sector expertise in order to drive investment into all parts of the UK.” It is vital that the Office for investment plays a role in driving FDI to the regions to underpin the investment capacity created by the levelling up policy. In doing so, it provides regions with the tools to support government in delivering on the levelling up agenda by increasing productivity and empowering itself as a place. It would help if the Office for Investment had a clear definition of what “all parts of the UK” will mean in order to guide their delivery. For example, would delivering FDI anywhere in England, Scotland, Wales and Northern Ireland deliver this aim? We would advocate a focussed aim/objective/performance metric to be built into the terms of reference for the Office for Investment that tasks them to deliver FDI in the areas of the UK that are in need of levelling up rather than targeting FDI at England and Devolved Administration level.

17. There is an issue that rural and peripheral regions whose productivity is below the UK average may not have the underlying performance parameters which would encourage large inwards investment such as a skilled workforce or infrastructure. It therefore must be a priority that in order to satisfy a levelling up agenda, there must be government investment in developing skill levels, connectivity, infrastructure and other areas which would increase the probability of FDI in these regions. Through doing this, it will not only increase the attractiveness of these areas to FDI, but it also allows these areas to fulfil its highest potential. Many of these regions such as Cornwall are forward looking, with vast amounts of resources for renewable energy, aerospace and mining. However, for regions like Cornwall to develop these internationally important industries, high investment is needed. Otherwise FDI just exacerbates the gap between more productive areas and those that are in need of levelling up.

18. Investment must be focused on projects which will bring real, long term economic benefits to local people. If focusing FDI to satisfy the levelling up agenda, then it must ensure that the economic product stays local and is not filtered out to benefit outside regions and areas that do not have as much of a need to level up.

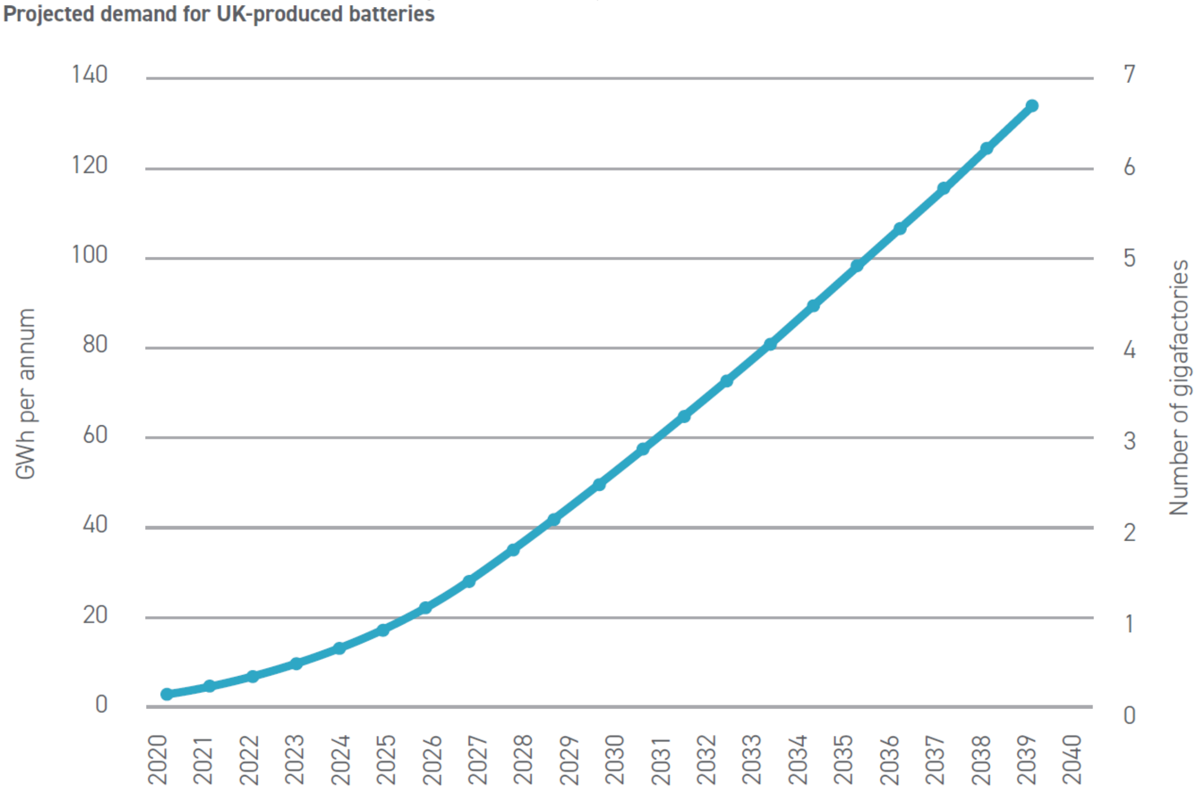
## CIoS Local industrial strategy

19. The strengths and weaknesses of local economies have been set out in well evidence Local Industrial Strategies (LIS), which seek to deliver the national framework of the Industrial Strategy. Local Industrial Strategies should form the basis for the broader investment strategy to attract FDI. By working with local governments in delivering their LIS, the Office for Investment would be able to exploit the unique strengths of regions to meet the demands of investors as set out under the previous question: proximity to customers, cheap and clean renewable energy (in the case of Cornwall), and a skilled workforce. Thus helping deliver a bottom up development approach through utilising local expertise and resources.

20. The Cornwall and Isles of Scilly draft Local Industrial Strategy (LIS) is built on the national framework. Both in in its individual components and in the unique combination of investment opportunities the LIS represents the building blocks of an investment portfolio. However, unless the Office for Investment the wider Department of International Trade and other key UK Government departments operate a more

level playing field in terms of regional locations for inbound FDI, the true potential of the levelling up agenda will not be realised.

21. For example, consistent with the Clean Growth Challenge, the development of UK Gigafactories is driven, in no small part by the policy announcement in November 2020 that will see the sale of new internal combustion and hybrid vehicles end by 2030. This policy is underpinned by a commitment to significant UK Government capital investment in charging infrastructure. Growth in Electric vehicles (EV) will create greatly increased demand for lithium ion battery cells and by association the raw material components, including but not limited to lithium. To satisfy UK demand and, more importantly, capture the maximum FDI and resultant economic benefit, industry forecasts agree that the UK will require a number of large-scale Gigafactories. Indeed, a recent report by the Faraday Institution states that "In the absence of any Gigafactories producing batteries and associated EV manufacturing, we forecast that direct automotive employment would be 105,000 lower in 2040 than it would otherwise be" and projects, based on demand forecasts the number of Gigafactories required, illustrated below:




Source: Faraday Institution

22. Due to the abundance of lithium and other critical metal resources in Cornwall the UK has an option not open to many of our competitors: simultaneously attract FDI into the mining and mining services/mineral processing sector in Cornwall and into the development of a Gigafactory adjacent to the resource base in a region with large scale existing port and rail import/export infrastructure.

23. In addition, with 33% of current indigenous generation from renewable sources and the multi Gw potential of Cornwall's Atlantic Seaboard for floating offshore wind production Cornwall is best placed to deliver the best "mines to wheels" outcome highlighted by the Faraday Institution as key to obtaining the full benefits of EVs towards net zero goals.

24. Promoting such an approach challenges the orthodoxy that lithium ion cell production facilities should be adjacent to vehicle manufacturing facilities. However, in addition to the benefits described above, success would add value to the UK natural resource base with a reduced transport component/environmental impact. In doing so the UK Government would make a very strong statement that supports levelling up through "game changing" job creation and allied economic activity.

## What advice, support and assistance should the Government be providing to inward investors – and how can it most effectively communicate with investors?

25. The Office for Investment and existing DIT provision provides support to, quote "support the landing of high value investment opportunities into the UK". The announcement of the Office for Investment is a welcome addition in terms of capacity, capability and coordination. DIT HQ operations and regional presence provides the second layer of support but again the focus, whilst understandable, limits the addressable market for inward investment support.

26. There is a material risk that by restricting focus to supply-side large scale totemic, infrastructure-led and/or sector-specific inward investment the "long tail" of potential inward investors will not be captured. Such businesses, largely SMEs, seeking UK market access that may be particularly important the economy of rural areas. Indeed, in many rural economies, particularly in CIoS, there is a good "fit" with SME FDI through emerging high value sectors complimented by university and business-led (government funded D&I). In CIoS for example this is particularly evident in sectors such as aerospace (UAV), space, Agri-tech, health technology, marine technology, mining/mining services and clean growth (particularly floating offshore wind)

27. In addition to the, very welcome, recent capital investment initiatives announced by the Chancellor, the UK Government should consider revenue support for sub-regional inward investment (and associated export trade) programmes through direct funding to Local Enterprise Partnerships to **compliment** DIT and Office for investment services.

28. Deriving even greater value from inward investment resources in British Embassies/High Commissions in donor markets where investment decisions are made should be a priority with particular regard to effective account management of potential MNE investors and critical relationships with principals of sovereign wealth funds and other in-country institutional investors. It will be vital for these in-market representatives have, through the Office for Investment, access to Ministers and officials across government.

29. In addition to the proposed support for LEP-based inward investment activity, funding for the continued development of sub-regional (LEP-based) marketing and communications to describe fully the strength and depth of regional propositions will be critical.

30. The office for investment should also work closely with local authorities. This will enable local expertise and knowledge to be utilised and enable opportunities for local investment to be aligned with FDI investment which can lead to higher investment and higher returns for all investors. For example Cornwall Council has already approved a significant investment programme which could be used to co-invest and share the risk if necessary.

31. The government should help market the attractiveness of regions of the UK to investors. For example, Cornwall should be promoted as a region with a significant mining resources located in one of the most environmentally friendly and politically stable areas of the world, with good transport infrastructure such as ports and railways. Through working with local authorities and stakeholders, the office for investment can get a better idea of regions real potential, in order to make areas like Cornwall more attractive to investment.

## What effects would the provisions of the National Security and Investment Bill have on UK inward investment – and how well does it balance national security against promoting and facilitating inward investment?

32. In a recent address to parliament, the Secretary of State for Business, Energy and Industrial Strategy, Alok Sharma, said: “The UK is very much open for business, but being open for business does not mean that we are open to exploitation”. An open approach to international investment must also include appropriate safeguards to protect our national security.

33. “Those are not conflicting approaches; prosperity and security go hand in hand. Otherwise, we leave the UK open to the risk of being targeted and compromised by potential hostile actors who are looking to disrupt our economic and wider security.”

34. The Bill defines its purpose, is, at least in part, prescriptive with regard to sectors that are of particular political or security-related sensitivity and defines “trigger events”, the process of approval in the new NSI regime will, once notified, require the Office for Investment to work closely with a “notified” investor to ensure that the process of approval is expedited.

35. From the perspective of the Office for Investment it has a role with potential investors into the UK to navigate the complexities of the NSI process to establish whether their deal falls on the wrong side of the national security calculus. BEIS have established the ability for “informal discussions” (access to which are advertised as being through investment.screening@beis.gov.uk). Assuming the Office for Investment will have had a longer term relationship with a potential sensitive investor, the Office for Investment’s role, at least in part, could be seen as equivalent to providing “pre-app advice” step in the planning approval process (where Ministerial call-in also applies) **earlier** in the process. Provided in the right manner, such advice can both shape the provision of information, expedite the process or, in the event of a negative outcome, manage expectations and minimise reputational damage to the UK.

## What role do Sovereign Wealth Funds play in UK inward investment – and how might that role develop?

36. The world’s largest Sovereign Wealth Funds (SWF) have invested heavily in the UK across a broad range of asset classes including fixed income, banking/financial services, property and major infrastructure. The world’s largest SWF, the Norwegian Oil Fund holds over 2700 investments (equity, fixed income and property/infrastructure) with a gross value of c.£300 billion. Mubadala, the UAE SWF based in Abu Dhabi invested heavily in a 30% stake in one of the UK’s largest renewable energy projects, The London Array. Uncertainty related to EU-exit has impacted SWF investment in 2018, there was a sharp decline in investments by SWFs via private equity, with deals dropping more than two-thirds from 2017 levels to $3.82 billion (£2.94 billion). However, this is expected to recover in the longer term with major SWCs including Norway and the UAE expressing positive sentiment towards UK investment.

37. Pre-pandemic, global FDI has been dominated by investment from Multi-national Enterprises (MNEs). However, the most recent UNCTAD report of global FDI states: *"Over the two critical years of 2020 and 2021, the demand shock will be the biggest factor pushing down FDI. Although in general the trend in FDI reacts to changes in GDP growth with a delay, the exceptional combination of the lockdown measures and the demand shock will cause a much faster feedback loop on investment decisions. The demand contraction will hit FDI in the first half of 2020 and then fully unfold in the second half and 2021. Early indicators confirm the immediacy of the impact. Both new greenfield investment project announcements and cross-border M&As dropped by more than 50 per cent in the first months of 2020. MNE profit alerts are an early warning sign. The top 5000 MNEs worldwide, which account for most of global FDI, have seen expected earnings for the year revised down by 40 per cent on average, with some industries plunging into losses. Lower profits will hurt reinvested earnings, which account for more than 50 per cent of FDI on average.*

38. With MNE FDI dropping, investment by state actors through Sovereign Wealth Funds will become an increasingly important component of a successful outcome for UK FDI. The UK is one of the largest receipts of sovereign wealth funds, and has benefitted from much investment from these sources. The City of London is a major attraction for these funds (and although this is important for attracting these funds), moving forward more needs to be done in order to make rural areas more attractive to sovereign wealth funds. This can be done by capitalising on the fight against global climate change and push for investment in renewable energy markets, in rural areas such as Cornwall.

## What particular issues do Sovereign Wealth Funds pose in respect of UK national security – and how can these most effectively be addressed?

39. There is a natural and unavoidable tension between the investment by state actors in the form of sovereign wealth funds and the political, diplomatic and national security considerations. This translates into a public and business perception of uncertainty driven by potential conflicts between UK foreign policy and domestic investment/FDI strategy.

40. Investment in critical national infrastructure by sovereign wealth funds is particularly sensitive exacerbated by the increasing scale and scope of critical national infrastructure from, for instance physical utilities and transport to digital infrastructure upon which the UK's domestic and export economy is totally dependent.

41. The National Security and Investment Bill establishes effective checks and balances to manage and control FDI. However, without risking diplomatic tension, clarity of communication from UK Government with regard to the foreign policy position on any foreign jurisdiction is critical. For instance, the acceptability of, or issues with, FDI in a manner that conditions the nature of investor engagement is essential.

42. As in all matters that straddle the commercial and political spheres, the UK Government establishing the right forum (through the Office for investment) for early confidential discussions with key stakeholders from the UK "side" of any potentially sensitive FDI would, if there were an issue, avoid embarrassment and where there were no, assist in expediting the process.

43. The UK government must also be careful when deciding to accept sovereign wealth funds from organisations that are supported by governments that have different values than ours, especially in human rights and environmental standards. Sovereign wealth funds can hold political aspects, and we do

not want to see the UK government jeopardising our environmental and human rights standards by supporting regimes which go against our values.

*February 2021*